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BEFORE THE ARIZONA CORPORATION COMMISSION

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IN THE MATTER OF THE APPLICATION OF
ARIZONA-AMERICAN WATER COMPANY,
AN ARIZONA CORPORATION, FOR A
DETERMINATION OF THE CURRENT FAIR
VALUE OF ITS UTILITY PLANT AND
PROPERTY AND FOR INCREASES IN ITS
RATES AND CHARGES BASED THEREON
FOR UTILITY SERVICE BY ITS ANTHEM
WATER DISTRICT AND ITS SUN CITY
WATER DISTRICT.

Docket No. W-01303A-09-0343

IN THE MATTER OF THE APPLICATION OF
ARIZONA-AMERICAN WATER COMPANY,
AN ARIZONA CORPORATION, FOR A
DETERMINATION OF THE CURRENT FAIR
VALUE OF ITS UTILITY PLANT AND
PROPERTY AND FOR INCREASES IN ITS
RATES AND CHARGES BASED THEREON
FOR UTILITY SERVICE BY ITS
ANTHEM/AGUA FRIA WASTEWATER
DISTRICT, ITS SUN CITY WASTEWATER
DISTRICT AND ITS SUN CITY WEST
WASTEWATER DISTRICT.

Docket No. SW-01303A-09-0343

Arizona Corporation Commission

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RUCO'S NOTICE OF FILING
TESTIMONY SUMMARY

1 The Residential Utility Consumer Office ("RUCO") hereby provides notice of filing
2 the Testimony Summary of William A. Rigsby in the above-referenced matter.

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4 RESPECTFULLY SUBMITTED this 20th day of April, 2010.

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6 
7 Daniel W. Pozefsky
8 Chief Counsel

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10 AN ORIGINAL AND THIRTEEN COPIES
11 of the foregoing filed this 20th day
12 of April, 2010 with:

13 Docket Control
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16 mailed this 20th day of April, 2010 to:

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By 
Ernestine Gamble

Arizona-American Water Company, Inc.
Docket No. W-01303A-09-0343 & Docket no. SW01303A-09-0343
Rate Case

**SUMMARY OF THE TESTIMONY OF WILLIAM A. RIGSBY
ON BEHALF OF THE RESIDENTIAL UTILITY CONSUMER OFFICE**

The following is a summary of the significant issues set forth in both the direct and the surrebuttal testimony of RUCO witness William A. Rigsby on Arizona-American Water Company, Inc.'s ("AAWC" or "Company") application for a permanent rate increase. Mr. Rigsby is providing testimony on the following: the cost of capital issues associated with AAWC's request for a rate increase; the Company-proposed Infrastructure System Replacement Surcharge ("ISRS"); and RUCO's response to the testimony of Anthem Community Council's witness, Dan Neidlinger. The underlying theory and rationales for Mr. Rigsby's recommendations on these issues are contained in the above-referenced documents. The significant issues associated with the case are as follows:

COST OF CAPITAL

Weighted Cost of Capital – Mr. Rigsby is recommending that a 6.77 percent weighted cost of capital be applied to AAWC's fair value rate base ("FVRB"). Mr. Rigsby's 6.77 percent figure is the result of his recommended capital structure, his recommended cost of short-term debt, his recommended cost of long-term debt, and his recommended cost of common equity.

SUMMARY OF THE TESTIMONY OF WILLIAM A. RIGSBY (Cont.)

Capital Structure – Mr. Rigsby is recommending that the Commission adopt a capital structure comprised of 13.29 percent short-term debt, 47.56 percent long-term debt and 39.15 percent common equity.

Cost of Short-Term Debt – Mr. Rigsby is recommending that the Commission adopt a 3.41 percent cost of short-term debt. Mr. Rigsby's recommended 3.41 percent cost of short-term debt represents the cost of commercial paper issued by AAWC.

Cost of Long-Term Debt – Mr. Rigsby is recommending that the Commission adopt a 5.47 percent cost of long-term debt. Mr. Rigsby's recommended 5.47 percent cost of long-term debt represents the weighted cost of AAWC's various debt instruments.

Cost of Common Equity – Mr. Rigsby is recommending a 9.50 percent cost of common equity. Mr. Rigsby's 9.50 percent figure falls on the high side of the range of estimates that he obtained from his cost of equity analysis which used both the discounted cash flow ("DCF") and capital asset pricing model ("CAPM") methodologies. Mr. Rigsby's recommended 9.50 percent cost of common equity is 50 basis points higher than his recent recommendations for utilities with lower levels of debt in their capital structures.

SUMMARY OF THE TESTIMONY OF WILLIAM A. RIGSBY (Cont.)

INFRASTRUCTURE SYSTEM REPLACEMENT SURCHARGE

ISRS – Mr. Rigsby is recommending that the Commission reject the Company-proposed ISRS. Mr. Rigsby's recommendation is based on his belief that there is no federal, or for that matter any other, mandates requiring that AAWC be required to construct the types infrastructure improvements that would be covered under the company-proposed ISRS. Furthermore, Mr. Rigsby believes that there are no other extraordinary circumstances that would warrant the approval of an ACRM-like mechanism that would allow the Company to recover costs associated with routine plant additions that would normally be subject to much closer scrutiny during a general rate case proceeding.

RESPONSE TO THE TESTIMONY OF ANTHEM COMMUNITY COUNCIL

Response to Witness Dan Neidlinger – Mr. Rigsby has stated in his surrebuttal testimony that, like Mr. Neidlinger, he is not an attorney and is unable to give a legal opinion on the recovery of refunds or the rate base treatment of assets associated with the existing agreement between AAWC and Pulte Homes. Mr. Rigsby also stated that RUCO reserves the right to modify its position on this issue should the legal argument prove valid. RUCO is in the process of doing its own investigation into the facts and circumstances of that argument and may or may not supplement its testimony depending on the results of its investigation.